

Number: **200645010**
Release Date: 11/10/2006
Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Index Number: 355.00-00, 355.03-00

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact: _____, ID No. _____

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Refer Reply To:
CC:CORP:05
PLR-113117-06
Date:
August 03, 2006

LEGEND:

Distributing =

Controlled =

StateA =

Year1 =

BusinessA =

LocationA =

LocationB =

Mother =

BrotherA =

BrotherB =

p =
q =
r =

Dear :

This letter responds to your representative's letter dated January 31, 2006, requesting rulings as to the Federal income tax consequences of a proposed transaction. The information submitted in that letter and subsequent correspondence dated March 24, May 18, and June 21, 2006, is summarized below.

SUMMARY OF FACTS

Distributing is a closely held State A corporation that uses the cash method of accounting and a calendar year. Distributing states that it has been an S corporation since Year1. Distributing is engaged in BusinessA both at LocationA and LocationB. Distributing has outstanding p shares of common stock and no other stock. This stock is held 50% by Mother and 25% each by BrotherA and BrotherB (children of Mother).

Controlled is a corporation being formed under the laws of StateA that will be a wholly-owned subsidiary of Distributing and will have outstanding solely common stock. Controlled is not yet engaged in any activities. In the Contribution (described below), Controlled will acquire from Distributing the portion of BusinessA that is conducted at LocationB and will be directly engaged in this business.

Distributing has been engaged in BusinessA at both LocationA and LocationB for more than five years. The financial information submitted by Distributing indicates that Distributing's BusinessA has had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years, at both LocationA and LocationB.

Management of Distributing has determined that separating BusinessA into two separately operated businesses, LocationA Business and LocationB Business, will enable Distributing to eliminate serious conflicts that are preventing Distributing from developing a cohesive strategic business plan. In addition, Distributing management has determined that, prior to any separation of the Location A and B businesses, it may

be desirable to reduce the amount of the businesses' liabilities ('Reduction in Business Liabilities'). It is possible that this reduction in liabilities will involve a capital contribution ("Possible Capital Contribution") from Mother to Distributing.

To achieve this separation, the taxpayer proposes to undertake a proposed transaction ("Transaction") through the following steps ("Steps"):

- Step (I) Distributing will contribute (the "Contribution") to Controlled all the assets of the LocationB Business in exchange for all the outstanding stock in Controlled (q shares of the common stock of Controlled) and the assumption by Controlled of liabilities related to the LocationB Business.
- Step (II) Distributing will distribute (the "Distribution") to Mother and BrotherB all of the stock in Controlled (q shares of common) in exchange for their surrender of stock in Distributing. The exchange ratio is one to one with no fractional shares. Mother will surrender one half of her Distributing stock in exchange for half of the Controlled stock and BrotherB will surrender all of his Distributing stock in exchange for the other half of the Controlled Stock. Thus, following Step (II), Distributing will be held 50% each by BrotherA and Mother, and Controlled will be held 50% each by BrotherB and Mother.

REPRESENTATIONS

Distributing has made the following representations in connection with the proposed transaction:

- (a) Distributing, Controlled, and each of the shareholders will each pay his, her, or its own expenses incurred in connection with the Transaction.
- (b) There is no plan or intention for either Distributing or Controlled to issue any stock in conjunction with or subsequent to the Transaction, except for the stock in Controlled being issued to Distributing as described in Step (I).
- (c) At the time of the Step (II) Distribution, Controlled will not have outstanding any warrants or options or any debt where such debt would constitute either a security or an equity interest in Controlled. In addition, at such time, there will be no plan or intention for Controlled to issue any such warrants, options, or debt.
- (d) The total adjusted basis and the fair market value of the assets transferred to Controlled by Distributing will each equal or exceed the sum of the liabilities assumed by Controlled plus any liabilities to which the transferred assets are subject.

(e) The liabilities to be assumed (as determined under § 357(d) of the Internal Revenue Code) by Controlled in the Transaction, and the liabilities to which the assets transferred to Controlled are subject, were incurred in the ordinary course of business and are associated with the assets transferred.

(f) Distributing has not accumulated, and will not accumulate, its receivables or make extraordinary payments of its payables in anticipation of the Transaction.

(g) No investment credit has been or will be claimed with respect to any property being transferred from Distributing to Controlled.

(h) No intercorporate debt will exist between Distributing and Controlled at the time of the Distribution or subsequent thereto.

(i) Immediately prior to the Distribution, each share of the outstanding stock in Distributing will have been held by its then current holder at all times during the 5-year period prior to the Distribution. The Distribution will not constitute a disqualified distribution within the meaning of § 355(d).

(j) The exchanging shareholders will receive solely Controlled common stock in the Distribution.

(k) For each of the exchanging shareholders, the fair market value of the Controlled stock received by a shareholder will be approximately equal to the fair market value of the Distributing stock surrendered by such shareholder in the exchange.

(l) No part of the stock in Controlled received by the Distributing shareholders in the Distribution is being received by a shareholder as a creditor, employee or in any capacity other than as a shareholder of Distributing.

(m) The five years of financial information submitted on behalf of Distributing's LocationA Business and LocationB Business is representative of each business's present operations and, regarding each business, there have been no substantial operational changes since the date of the last financial statements submitted.

(n) Following the Distribution, Distributing will continue to be directly engaged in the active conduct of BusinessA at LocationA independently and with its own separate employees (or through the actions of its own officers, directors, and shareholders acting on its behalf). BusinessA will have been actively conducted (within the meaning of § 1.355-3(b) of the Income Tax Regulations) at LocationA by Distributing independently and through its own employees (or its officers, directors, and shareholders) at all times in the 5-year period prior to the Distribution.

(o) Following the Distribution, Controlled will be directly engaged in the active conduct of BusinessA at LocationB independently and with its own employees (or through the actions of its own officers, directors, and shareholders acting on its behalf). BusinessA will have been actively conducted (within the meaning of § 1.355-3(b)) at LocationB by Distributing independently and through its own employees (or its officers, directors, and shareholders) at all times in the 5-year period prior to the Distribution.

(p) The LocationB Business serves both related and unrelated persons. In each year of the past five years, the portion of the LocationB Business conducted with unrelated parties has constituted more than r percent of all the assets, income, and activity of the LocationB Business. It is expected that subsequent to the Transaction, business with unrelated parties will continue to constitute r percent or more of the assets, income, and activity of the LocationB Business.

(q) The Transaction is being carried out for the following corporate business purpose: to eliminate conflicts between BrotherA and BrotherB that are preventing Distributing from developing a cohesive business strategy for BusinessA. The transaction is motivated in whole or significant part by such corporate business purpose.

(r) Distributing presently has no current or accumulated earnings and profits, and at the time Step (II) is consummated neither Distributing nor Controlled will have any current or accumulated earnings and profits. The Transaction will not be used principally as a device for the distribution of earnings and profits of either Distributing or Controlled.

(s) There is no plan or intent for there to be any transactions between Distributing and Controlled subsequent to the Distribution. If any transactions should occur between Distributing and Controlled, they will be negotiated at arm's length and for fair market value.

(t) There is no plan or intention to liquidate either Distributing or Controlled, to merge either Distributing or Controlled with any other corporation, or to sell or otherwise dispose of the assets of either Distributing or Controlled subsequent to the Transaction, except for dispositions of assets in the ordinary course of business.

(u) There is no plan or intention by either Distributing or Controlled, directly or through any subsidiary, to purchase any of its outstanding stock after the Transaction, other than through stock purchases meeting the requirements of Section 4.05(1)(b) of Rev. Proc. 96-30.

(v) There is no plan or intention by shareholders of Distributing to sell, exchange, transfer by gift, have redeemed or otherwise dispose of any of their stock in Distributing or Controlled in conjunction with the Transaction or subsequent to the

Transaction (except for the surrender of Distributing stock for Controlled stock in Step (II)).

(w) The Transaction is not related to, or connected to, or part of a plan involving any other transaction. In the 5-year period prior to Step (II), there will have been no changes in the holding of stock in Distributing. It is anticipated that subsequent to Step (II) all the outstanding stock in Distributing and Controlled will continue to be held by the present shareholders in the same manner as it is held at the time Step (II) is consummated.

(x) Distributing is an S corporation (within the meaning of § 1361(a)). Controlled will elect to be an S corporation pursuant to § 1362(a) immediately after the Distribution and there is no plan or intention to revoke or otherwise terminate the S corporation election of either Distributing or Controlled.

(y) Neither Distributing nor Controlled is an investment company as defined in § 368(a)(2)(F)(iii) and (iv).

(z) Neither Distributing nor Controlled will be a disqualified investment corporation (within the meaning of § 355(g)(2)).

(aa) Neither Distributing nor Controlled has been or will be a United States real property holding corporation ("USRPHC"), as defined in § 897(c)(2), at any time during the five-year period ending on the date of the distribution and neither Distributing nor Controlled will be a USRPHC immediately after the Transaction.

RULINGS

Based solely on the information submitted and the representations set forth above, we rule as follows:

(1) The Contribution followed by the Distribution is a reorganization within the meaning of § 368(a)(1)(D). Distributing and Controlled will each be a "party to a reorganization" within the meaning of § 368(b).

(2) No gain or loss will be recognized by Distributing upon the transfer of assets to Controlled in exchange for Controlled stock and the assumption of Distributing liabilities (as specified in representations (d) and (e) above) by Controlled in the Contribution (§§ 361(a) and 357(a)).

(3) No gain or loss will be recognized by Controlled on the receipt of Distributing assets in exchange for Controlled stock (§ 1032(a)).

(4) The basis of each asset received by Controlled will be the same as the basis of such asset in the hands of Distributing immediately prior to the Contribution (§ 362(b)).

(5) The holding period for each of the assets received by Controlled will include the period during which such asset was held by Distributing (§ 1223(2)).

(6) No gain or loss will be recognized by Distributing upon the distribution to its shareholders of the Controlled stock in the Distribution (§ 361(c)(1)).

(7) No gain or loss will be recognized by (and no amount will be included in the income of) the Distributing shareholders upon receipt of the Controlled stock in the Distribution (§ 355(a)(1)).

(8) For each exchanging shareholder, the basis of the Controlled stock received will be equal to the basis of the Distributing stock surrendered in exchange therefor (§ 358(a)(1)).

(9) For each exchanging shareholder, the holding period of the Controlled stock received will include the period during which the shareholder held the Distributing stock exchanged therefor, provided that the Distributing stock is held as a capital asset in the hands of the shareholder on the date of the exchange (§ 1223(1)).

(10) Distributing's momentary ownership of the stock of Controlled, as part of the reorganization under § 368(a)(1)(D), will not cause Controlled to have an ineligible shareholder for any portion of its first taxable year under § 1361(b)(1)(B). If Controlled otherwise meets the requirements of a small business corporation under § 1361, Controlled will be eligible to make a subchapter S election under § 1362(a) for its first taxable year, provided such election is made effective immediately following the Distribution.

CAVEATS

The rulings contained in this letter are based upon facts and representations that were submitted on behalf of the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This Office has not verified any of the material submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process. In particular, this office has not reviewed any information pertaining to, and has made no determination regarding: (I) whether the distribution described above satisfies the business purpose requirement of § 1.355-2(b) of the regulations; (II) whether the Distribution is used principally as a device for the distribution of the earnings and profits of Distributing (see § 355(a)(1)(B) of the Code and § 1.355-2(d) of the regulations); or (III) whether this distribution is part of a plan (or a series of related

transactions) pursuant to which the one or more persons will acquire directly or indirectly stock representing a fifty percent (50%) or greater interest in Distributing or Controlled (see § 355(e) of the Code and § 1.355-7 of the regulations).

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any matter or item discussed or referenced in this letter. Moreover, no opinion is expressed about the tax treatment of the Transaction under other provisions of the Code or regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the Transaction not specifically covered by the above rulings. Furthermore, no opinion is expressed about the tax treatment of any Reduction in Business Liabilities or the Possible Capital Contribution or whether this will result in a gift from one shareholder to another. Finally, no opinion is expressed on the validity of any subchapter S election of either Distributing or Controlled.

PROCEDURAL STATEMENTS

This ruling is directed only to the taxpayers who requested it. Section 6110(k)(3) of the Code provides that this private letter ruling may not be used or cited as precedent.

It is important that a copy of this letter be attached to the federal income tax return of each taxpayer involved for the taxable year in which the transactions covered by this letter are consummated. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching to the return a statement that provides the date and control number (PLR-113117-06) of this ruling letter.

Pursuant to the power of attorney on file in this matter, a copy of this letter is being sent to your authorized representatives.

Sincerely

Virginia S. Voorhees
Virginia S. Voorhees
Senior Technician Reviewer, Branch 5
Office of Associate Chief Counsel
(Corporate)